

Audit News

City of Durham Audit Services Department

Volume 1, Issue 1: March 2010

Comments from the Director -Germaine Brewington

Theme: Fraud and Ethics Awareness

The Audit Services Department is staffed with 5 employees. The Department: performs audits and special investigations, observes the physical inventory process, conducts ethics and internal controls training, and monitors the Fraud Hotline.

This issue is focused on the importance of a strong ethical climate and the potential outcome of the lack of a strong control environment—fraud.

Ethics is a difficult concept to wrap your arms around because ethical behavior means different things to different people. The fraudulent scandals of Enron and WorldCom are but a few instances of documented unethical behavior. Just like internal control is a process, an ethical culture is a process; a process that requires rules, an educated work force and leadership (Kernaghan, 2008).

The ethical culture at the City of Durham consists of a Code of Ethics and other rules and principles that provide the foundation for a systematic way of behaving within the City of Durham. Each employee however, brings to his or her job their own set of values or moral compass. While ethics are the rules and principles that govern how we behave, our values, ingrained from an early age, underpin our rationalization for what we consider to be right or

wrong behavior. Ethical behavior at the City of Durham depends on many individuals with very different value systems 'doing the right thing'. Even though we are individuals, the measure by which we govern ourselves within the City of Durham is dictated by the City's Code of Ethics. Aligning ones personal values with those of the City may not always be as easy as you might think.

Rules are sometimes in conflict with each other which bring into question the correct behavior to take. Ethics and values are often used interchangeably because they both address how we rationalize our behavior. To ensure the City has the kind of ethical climate that nurtures the desired behavior of its employees, Audit Services has begun a series of educational endeavors to enhance the awareness of all employees about what ethics is, what fraud is, and how we prevent fraudulent activity that results from unethical behavior. We hope you learn something new from the different articles in this newsletter and we welcome your comments.

Reference: Kernaghan, K. (2008). Managing ethics: Complementary approaches. *Canadian Public Administration*, 34 (1), p. 132-145. Retrieved from: www.google.com.

**To Report Incidents of
Fraud, Waste and Abuse
Contact the Fraud HOTLINE at
919-560-4213, ext. 3**

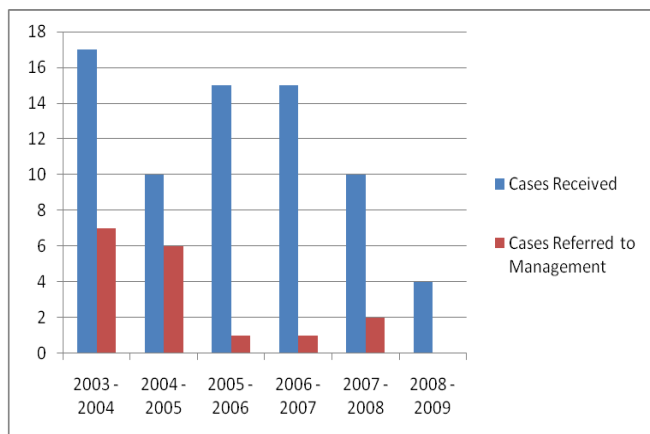
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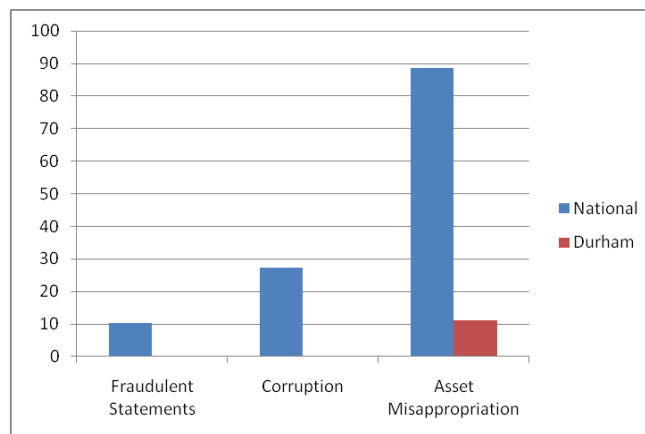


Occupational Fraud

City of Durham Fraud Cases: 2003–2008



Occupational Fraud by Category in 2008



Occupational fraud is the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets. Nationally, fraud costs organizations millions of dollars in lost revenues. Durham's activity is far below the national average because of the best practices followed by City management and the Audit Services Department (see page 4). City of Durham fraud cases are either resolved by the Audit Services Department or referred to management.

Test Your Ethics

- 1. If my boss asked me to lie to cover one of his mistakes, I would:**
A. Quit B. Lie C. Say it made me uncomfortable D. Do it this time, but refuse if it became a pattern
- 2. If I discovered that I had unintentionally violated an important regulation, I would:**
A. File a report acknowledging my mistake
B. Wait and see if it was as important a violation as it seems
C. Discuss the situation with my boss
D. Try to straighten out the error and talk to my boss if I could not
- 3. If I observed a fellow employee stealing from the company, I would:**
A. Report the employee
B. Keep an eye on the employee
C. Try to make the employee return what was stolen
D. Ask the employee why he or she stole the item and then decide what to do



Identity Fraud

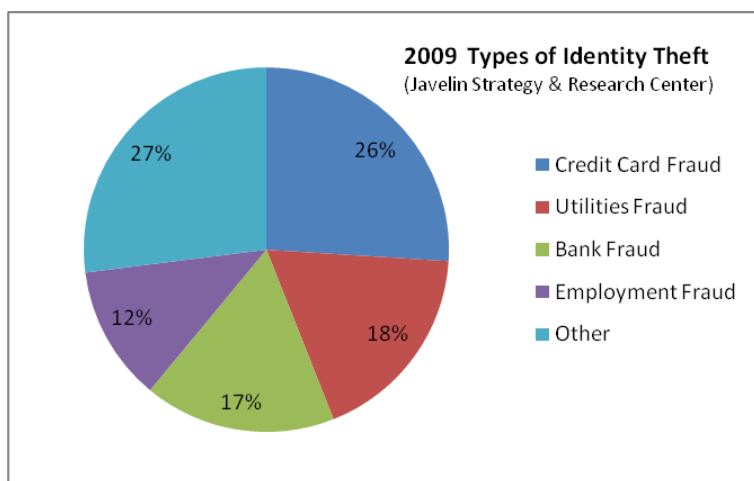
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Identity theft is one component of identity fraud. Identity theft is defined as the process of using someone else's personal information for your own personal gain. Identity fraud on the other hand is a much broader problem that factors into every major crime: human trafficking, drug trafficking, terrorism, financial crimes. Identity fraud is the catalyst or enabler of crimes through the creation of false documents that lead to identity theft. The Javelin Strategy & Research Center has been studying identity theft closely since 2004. Each year, they release their findings. Their 2009 study reveals that:

- Identity theft is on the rise affecting almost 10 million victims in 2009 (a 22% increase from 2007)
- The mean cost per victim is \$500
- 71% of fraud happens within a week of stealing a victim's personal data

How Can We as City of Durham Employees Protect Information?

- Safeguard personal/sensitive information;
- Authenticate persons you give information to;
- Choose difficult passwords and change them often;
- Don't carry passwords with you or tape them to your computer;
- Shred sensitive financial information;
- Review forms you are responsible for to ensure sensitive data is absolutely necessary.



Types of Identity Theft

Credit Card fraud (26%): Can occur when someone acquires your credit card number and uses it to make a purchase

Utilities fraud (18%): Utilities are opened using the name of a child or someone who does not live at the residence

Bank fraud (17%): Check theft, changing the amount on a check, and ATM pass code theft

Employment fraud (12%): Using someone's Social Security number to obtain a job

Other (27%): Tax, Social Security, driver license fraud, loan fraud, etc.

Newsletter Contributors

Graphic Designer: Kaye Plair

Researchers : Eric Walker & Germaine Brewington

Quality Control : Sonal Patel & Ora Horton

Eric Walker, Senior Auditor, CFE

Eric Walker, Senior Auditor and Certified Fraud Examiner (CFE) has worked for the City of Durham for 30+ years. He graduated from North Carolina Central University with a degree in Social Sciences and a minor in Psychology. Eric's work history includes employment as: 1) a Youth Services Counselor, 2) a Revenue Agent in the Finance Department for approximately two years, and 3) a Senior Auditor in the Audit Services Department for approximately 24 years. Since 2002, Eric has served in the capacity of CFE.

Eric sat for the CFE exam after the reorganization of the Audit Services Department in 2002; and he passed the exam on his first attempt. The



CFE exam is a 10 hour exam and it consists of 500 questions in the subject areas of: 1) fraud prevention and deterrence; 2) financial transactions; 3) fraud investigation; and 4) the legal elements of fraud. Eric is a people/free spirit personality type. His personality, undergraduate course of study, work history, institutional knowledge and interests all make him the perfect Certified Fraud Examiner.

Fraud HOTLINE 919-560-4213, Ext. 3

BEST PRACTICES

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A best practice is a technique that has proven to reliably lead to a desired result, through experience and research. Some of the best practices identified for auditing are listed below; along with the Audit Services Department's implementation of the practice.

Build a profile of potential frauds: Annually the Audit Services Department solicits input from various stakeholders to create a risk model to produce the annual audit plan.

Test data for possible indicators of fraud: Audit Services uses applications such as Benford's Law and ACL software to identify fraud indicators.

Improve the process by implementing continuous analysis: The Department follows up on audit recommendations quarterly.

Review results from testing and continuous analysis: Data collected is reviewed and analyzed, and findings are detailed in an audit report.

Report: Audit reports are submitted to the City Manager, Deputy City Managers, and the independent Audit Services Oversight Committee (ASOC) prior to being forwarded to the City Council for approval.

"Ethical behavior
at the City of
Durham depends
on many
individuals with
different values
doing the right
thing"

Test Your Ethics Answers: Scenarios have no correct answer.